

Case Study: Truth Soul Armor

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ABSTRACT: Truth Soul Armor is a new start-up company in need of an influx of additional venture capital up to \$750,000 from an “angel” investor. Jeff Ray, the president of Truth Soul Armor, has already invested more than \$500,000 of his own funds into the company over the last two years and needs resources from other investors to move to a full-time operational phase in anticipation of increased demand for their product.

Truth Soul Armor, headquartered in San Clemente, Calif., is in the surfer and skater apparel business, which in the last 20 years has grown from insignificant to a \$5 billion per year industry, serving a target market of youth from 15 to 24 that is more than 40 million strong. The surfer and skater apparel business is dominated by a few major players like Quicksilver and Billabong, with a lot of other companies from existing clothing companies wanting to expand and diversify to brand new start-ups like Truth hoping to gain a share of the market.

A potential investor, John Martin (name is changed for confidentiality), is considering Truth Soul Armor as a potential venture capital investment of up to \$750,000. After visiting with the company and its president, John is reviewing the business plan, sales forecasts, and financial condition of the company prior to making his decision. There are a multitude of both quantitative and qualitative issues that could play a role in the decision process.

INTRODUCTION

John Martin enjoyed the tranquility of his rustic lakefront cabin in Wisconsin, especially during the off season. The autumn colors had just reached their peak. He appreciated God’s creation and the many blessings he had received over the years. Now retired after 40 years as a successful entrepreneur, John wanted to bless others financially, especially helping budding entrepreneurs jumpstart their businesses. There was no limit on the number of start-up companies needing an influx of seed capital.

John was particularly intrigued with Truth Soul Armor — a company he had just visited in California that seemed on the brink of success. Jeff Ray, the president, was seeking an investment of up to \$750,000 from one or more silent partners to move his operation into full production mode. John contemplated his options and questioned if this was the right company in which to make an investment. He recalled his visit with Jeff and others at Truth Soul Armor last week.

VISIT TO TRUTH SOUL ARMOR

John had admired the California landscape and coast as he drove his rental car up Interstate 5 from San Diego to San Clemente in early October 20x6. A close friend of his, Michael Gray, chairman of the Board of Christian Surfers United States, had told him about a start-up company that had the potential to make a difference in the apparel market for surfers and skaters. While this was far different from the businesses that had made John successful, he was curious to learn more about the company. As a favor to Mike, he was making this contact.

Driving through an industrial park, he came upon a nondescript warehouse with a small sign on the door displaying the company name. Once inside, he walked past a couple of unkept offices before meeting a young man in a T-shirt and shorts. “Hi, I’m Jay Woods, the controller. Can I help you?”

Shortly after the introduction, Tom Waller, John’s

preliminary contact and a member of the advisory board, arrived wearing a stylish Hawaiian shirt. Realizing he was in California — traditional Midwestern roots notwithstanding — John loosened his tie.

Tom explained that Truth Soul Armor actually started 13 years prior as Christian Clothing Company. The target market was youth ages 15 to 24 involved in surfing and extreme sports — some 40 million strong — and centered in the southern California area. Complementing these sports was an entire clothing market that grew in popularity as the youth were very particular about what they would wear, even at a premium price.

John learned that the surfing and skating designer clothing industry had grown in the last 20 years from insignificant to more than \$5 billion per year for items like T-shirts, bathing suits, bottoms (shorts), sandals, and hats. The entire surf and skate industry was worth more than \$10 billion annually. The highly competitive apparel industry was dominated by a few major players, such as Quiksilver, Billabong, Ron Jon's, Volcom, and Hurley. Then there were a multitude of other wannabe start-up companies competing to crack this lucrative market.

Tom believed that Truth Soul Armor had a unique market niche, using a Christian theme that appealed not only to surfers, skaters, and other extreme sports enthusiasts but also the expanded youth market that either expressed a Christian faith or liked to dress with Christian-themed clothing. This clothing could capture a wide market, much like Christian rock music was popular in the secular rock music market.

These young consumers were less likely to have brand loyalty and more likely to try new brands and new stores than any other segment of consumers. These market conditions presented an excellent opportunity for companies like Truth, which had a new brand featuring a cutting-edge design and competitive style to be successful. Furthermore, the ability to cross over from general retail to more than 5,000 Christian retailers nationwide provided a significant opportunity. John had a keen interest in reaching today's youth and was willing to consider investing in entrepreneurial ventures that coincided with his passion and objectives. He kept listening.

It wasn't long before a muscular gentleman with shoulder-length bleached-blond hair, arms covered in tattoos, and wearing a baseball cap, T-shirt, and ragged blue jeans appeared. Thinking the man worked in the warehouse, John paused to see what he needed. He was Jeff Ray, president of the company! Now feeling absolutely out of place in his business suit, John was getting the California drift. (Mike should have warned him.)

Company History

Jeff had told a fascinating story of entrepreneurial success that spanned a 20-year period. Basically a surfer at heart in need of cash to sustain his hobby, Jeff bought a dump truck, painted flames on the truck, and became a roofer, easily one of the least desirable jobs imaginable. Through years of hard work, he built a successful construction business. Then he had a Christian conversion experience that enhanced a desire he had to reach out to those who were probably at the stage he was in his life 10 or 20 years prior.

Jeff had become a member of the board of Christian Clothing Company five years earlier and was one of its only financial supporters. The company had struggled, and Jeff had been given the opportunity to buy them out. He essentially bought the name and shell of the outfit and started from scratch in January 20x5. Jeff invested more than \$500,000 in the company and obtained a small amount of additional capital from other investors. This personal investment and start-up capital enabled Truth to develop and introduce product to the surfer and skater industry, which established brand awareness. Encouraged by initial acceptance of the product line from the surfer and skating community and some endorsements from Christian professional surfers and skaters, Jeff needed an additional influx of funds to build working capital and promote market penetration.

The company name, Truth, denoted credibility and significance. In this surf and skate industry, it was pretty easy to smell a phony. Truth had built authenticity into its brand by being an organization that lived — not just marketed — the surf and skate lifestyle. It was evident to John that a majority of the employees were surfers or skaters. Truth also implied integrity: the company had to have a quality product, honor contractual agreements with suppliers and customers, and gain the confidence of the ultimate consumer — individual surfers and skaters.

Finally, Truth promoted a spiritual dimension, as seen in its message to youth in their mission statement: "The Truth will set you free!" They were attempting to introduce a positive message to a culture that was often snared in the grip of drugs and other vices. Taking a stand for good in a sometimes counterculture environment made for even greater challenges and opportunities for success (see Appendix 1 on the Business Philosophy for Truth Soul Armor).

Key Personnel

The company had been fortunate in that in the last two years it had attracted people to key executive positions who knew the market, had contacts, and understood how the system worked. A first important hire was Charlie

Cobian as national sales director. Charlie had a long history in the surf and skate industry and helped take Cobian Sandals to more than \$7 million in sales. Under his leadership at Truth, a quality catalogue was developed with many more products brought online. Charlie also implemented a proven sales system and training process for sales staff and field representatives.

To complement Charlie's skills in sales, Nino Camillo was brought on board as an independent contractor for marketing. Nino developed significant relationships with the leaders of the industry and expanded the number of retail outlets available for the product. Nino was also gifted in the area of "guerilla," or grassroots, marketing.

To help support in-house operations, Jeff hired Larry Levis to oversee production. Larry brought 18 years of experience in the designer clothing arena. He also hired a quality control assistant, Jill, as much of the product design had to be outsourced to various artists. Most of the production took place in the United States because desired minimums could not be met for overseas production in India or China. Logistics issues were important as the cycle time from designer ideas to production and distribution had to be completed as quickly as possible to keep up with product demand (see Appendix 2 on the Operations and Management Plan for Truth Soul Armor).

Production Process

With two fashion seasons each year, Truth always had been busy, often juggling several different clothing cycles simultaneously. The spring season ran from January to June; its design and production processes started 15 months earlier. For example, for the spring 20x6 season, artwork on various clothing patterns had been developed in October 20x4. Designs had been finalized in November and December. Vendors had been contacted and production schedules were set in January 20x5. Truth had clothing samples ready in March 20x5, which salespeople promoted to various retail outlets. Orders were taken in April and May, and production was scheduled for the summer with distribution in November and December. The production cycle was completed with product ready for retail shelves by January 20x6.

The fall season from July to December had the same 15-month production process that was six months apart. With this type of production schedule, there were a minimum of four seasonal production and sales programs going on at one time. Given the fickle nature of the surfer and skater market, critical design and production decisions were made well before the actual sales took place. It was difficult to know what designs would be acceptable that far

in advance, but decisions still had to be made.

The product market itself was unique. While the surfers and skaters wanted designer clothing and were very brand aware, they were not particularly brand loyal. Sometimes each piece of clothing they wore would have to be a different brand. These consumers' preferences were quick to change, regardless of cost, if a new design or style caught their eye. What was "cool," a particular "fad," or who wore what could be the determining factor on a popular item that increased sales. It could mean completely new product lines and styles every six months.

The ever-evolving apparel market provided opportunities and challenges for start-up companies like Truth. If a particular fashion or style produced by Truth caught on in the market, there could be a tremendous increase in sales. However, the trend could just as easily reverse, and the company would be stuck with excess inventory. Jeff explained to John that in apparel, it sometimes takes \$10 million to build a brand, which could take up to three years to successfully promote. Obviously, Truth did not have the resources or time to build a brand and establish its niche.

A greater priority for Truth was to work more effectively and efficiently within its current limitations. As an example, over the last two years, sales had greatly improved. Under Charlie Cobain's leadership, 90 percent of the items listed in the catalog were available for quick delivery, which was up from 40 percent a year earlier (see Appendix 3 on the Sales Plan for Truth Soul Armor).

Marketing Process

The Christian-themed clothing, which the company had been trying to promote, could either be a pro, con, or not a factor at all in buying habits. Some surfers and skaters, who claimed to profess a Christian faith, wanted nothing but Christian-themed clothing. Others who were not Christian wanted no part of the clothing marketed by Truth. However, most were interested in the style, look, and positive message and tended to buy what was trendy. As evidence of success in the general market, Truth enlisted general retailers over Christian retailers by a three-to-one margin in recent months. Jeff believed that the positive message of Truth was widely received by the general population of young consumers.

Acclaimed professionals also impacted buying habits. Truth's potential to obtain endorsements from nationally acclaimed surfers Bryan Jennings and Noah Snyder had unlimited potential for increased sales. A number of Moto X champions, including the seven-time King of Baja, Johnny Campbell, promoted Truth apparel. And, several

different Christian rock bands popular with the surf and skate market endorsed the Truth products.

The secret to success was to get bookings in the core stores from which more than a third of annual sales of surfer and skating clothing came. A small group of about 25 stores were -recognized as the trendsetters in the market. Many of them were in the San Clemente area, considered a hotbed for surfing and skating.

Pre-booking sales had been a measure of anticipated annual sales. But if Truth wanted to stay competitive with the larger apparel companies, it had to carefully plan in advance and have product ready for key trade shows and events. Lately, Truth had a little trouble with some production back-up, primarily because it had failed to start 15 months early on the fashion cycle or that there had been an unforeseen snag in the design and production process. However, the company had also taken advantage of off-price sales where excess inventory was sold at a lower price but above manufacturing cost to other retail outlets. This last year, Marshall's — a national retail discount clothing store chain — became an active customer and purchased over \$90,000 in T-shirts (see Appendix 4 on the Marketing Plan for Truth Soul Armor).

Company Today

The company's goal was to double sales revenue to \$2 million in 20x7 and reach a positive cash flow position. Truth was already ahead of prebooked sales on a year-to-year comparison. They also wanted to add 10 new stores per month as potential customers. The company projected more than 60 percent of sales to come from the core market where they could incorporate the largest margins into the selling price. The core stores were generally able to list the highest retail prices since many customers came exclusively to those stores just to say they bought their clothing at the "hippest" locations.

Off-priced sales were projected around 20 percent for 20x7. While Truth preferred not to have any off-priced sales, given their very low or possibly negative gross margin, not every garment in their inventory would have been a sell-out. It was always good to have a viable means of disposing unwanted inventory. Also, potential customers in this new market had a chance to become familiar with Truth and could become regular customers of their products at the core stores.

It seemed like everything was in place. Jeff had successfully reinvented this company in less than 2 years. He recognized the importance of his most valuable resource — people — and hired quality individuals who bought into his vision and were even willing to work at reduced pay. As

a first priority, Jeff and his staff put systems in place that could support rapid expansion in the near future. There were still bugs to be worked out as the uncertainty of retailing always presented challenges. Just in the last week, a new supplier needed to be found on a hat order as the previous supplier did not comply with the order specifications. Also, the online system was not set up as originally intended, and there would be some fine-tuning in the coming months.

Jeff's efforts did not come without a cost. About all of Jeff's initial investment was gone. That second influx of capital typically needed in a new entrepreneurial venture would be critical in the near future. However, Jeff was a seasoned entrepreneur with more than 20 years of business experience. He knew what it took to make a business profitable. With the right silent partner(s) and sufficient capital, he was certain he could make Truth Soul Armor a success (see Appendix 5 on the Financial Plan for Truth Soul Armor).

DECISION DILEMMA

At the close of the meeting, John had received a copy of the company business plan, which noted that the Truth brand had actually outsold the surf and skate apparel's biggest competitive brands when placed side by side at Marshall's. Truth had been able to garner sponsorship from some of the top extreme sports champions. Sales were averaging more than \$70,000 per month with a high of \$132,000 last March. The company had won retail space in more than 120 stores. Jeff was proud to point out that all this had been accomplished without incurring significant debt.

The company also had built authenticity into the brand through employees and top management who lived the surf and skate lifestyle. John recognized that the people at Truth had a passion for and understood the market. He reflected on how he had a similar passion in and understanding of the entrepreneurial market and product that he successfully pursued.

John was considering a significant financial investment. However, as always, before making a decision, he needed to study the business plan, financials, and sales forecasts. He was conscious of the gifts God had given him over the years, and he certainly wanted to be in God's will for any investment decision. Was this the opportunity he was looking for, or were there other more deserving situations still to be found? This was a matter for prayer.

**Table 1: Truth Soul Armor Income Statement
Jan.-Sept., 20x6**

Revenues		
Marshall's & Winners	332,850	
Other retail	219,780	
Festival	82,929	
Total revenue		635,559
Cost of goods sold		
Marshall's & Winners	201,047	
Retail	201,243	
Total cost of goods sold		402,290
Gross profit		233,269
Operating expenses		
Festivals	27,980	
Sales	39,649	
Occupancy	29,924	
Salaries & wages	282,524	
Marketing	89,700	
Administration	135,009	
Total operating expenses		604,786
Operating income		-371,517
Financing expenses		604
Net income		-372,121

**Table 2: Truth Soul Armor
Statement of Retained Earnings, September 30, 20x6**

Beginning Balance	-216,230	
Net Income	-372,121	
Ending Balance		-588,351

**Table 3: Truth Soul Armor Balance Sheet
September 30, 20x6**

Assets		
Current Assets		
Cash* (See Bank Overdraft)	0	
Accounts Receivable	190,050	
Inventory	304,378	
Other	45,825	
Total Current Assets	540,253	
Fixed Assets		
Equipment (net)	23,896	
Total Assets		564,149
Liabilities		
Current Liabilities		
Bank Overdraft	7,804	
Accounts Payable	139,471	
Credit Cards	14,026	
Loan from Shareholder	329,401	
Other Payables	91,698	
Total Current Liabilities	582,400	
Total Liabilities		582,400
Equity		
Capital Stock	570,100	
Retained Earnings	-588,351	
Total Equity		-18,251
Total Liabilities and Equity		564,149

**Note: Cash had a negative balance of \$7,804 so it was listed as a current liability called Bank Overdraft*

Table 4: Truth Soul Armor Financial Forecast (*In Dollars*)
As of December 31, 20x7, 20x8, and 20x9

	20x7	20x8	20x9
Revenue			
Core	1,065,000	1,597,500	2,396,250
Major Accounts	515,000	772,500	1,158,750
Christian Business	100,000	150,000	225,000
International	150,000	225,000	337,500
Event Sales	100,000	150,000	225,000
Internet Sales	120,000	180,000	270,000
Walk-in Sales	20,000	30,000	45,000
Total Revenue	2,070,000	3,105,000	4,657,500
Cost of Goods Sold			
Retail Production	642,500	963,750	1,445,625
Major Production	372,400	558,600	837,900
Total Cost of Goods Sold	1,014,900	1,522,350	2,283,525
Gross Profit	1,055,100	1,582,650	2,373,975
Operating Expenses			
Salaries & Wages	551,877	634,659	698,124
Commission	136,450	204,675	307,013
Festival	42,000	48,300	53,130
Sales Expense	37,790	43,459	47,804
Occupancy	41,539	47,770	52,547
Employee Benefits	18,000	20,700	22,770
Marketing	160,000	184,000	202,400
General & Administrative	151,207	173,887	191,276
Depreciation	20,061	23,070	28,838
Total Operating Expenses	1,158,924	1,380,520	1,603,902
Operating Income	-103,824	202,130	770,073
Interest Expense	19,200	22,080	27,600
Net Income (Loss)	-123,024	180,050	742,473

SUGGESTED TEACHING APPROACHES AND QUESTIONS

The Truth Soul Armor case can be used in a corporate finance or managerial accounting class at the undergraduate or graduate level that covers the topic of venture capital and financial statement analysis. The information presented is relatively straightforward, and there is a clear decision point. There are sufficient extenuating circumstances to make for a good discussion of critical factors in this type of decision analysis.

This case can be either open-ended or directed through the suggested questions. The objectives of the case include the following:

- Analyze critical issues in the decision process
- Understand venture capital process
- Complete a comprehensive financial analysis
- Consider other primarily non-quantitative factors of a decision of this nature

This case can be presented open-ended without any specific questions or directed with several recommended questions focusing on both quantitative and non-quantitative issues. Classroom formats can be instructor-led or student-led discussions of the critical issues and decision in the case. The case may also serve as an exam case if the instructor is using a text with cases and wants to offer a case in a slightly different format and not readily available to students.

Some or all of the suggested questions listed below can be used depending on the issues being addressed. These questions are by no means all inclusive. If an instructor desires to pursue in greater depths particular aspects of the case, including the Christian dynamics, additional questions or discussion points can certainly be developed. In addition to the questions below, a comprehensive set of teaching notes with suggested answers is available from the author.

1. Complete a financial analysis of Truth Soul Armor and discuss your findings.
2. Analyze the projected sales forecasts of Truth Soul Armor and discuss your findings.
3. Identify critical non-quantitative issues to consider in the venture capital decision process.
4. What venture capital issues should John be most concerned about?
5. What role, if any, should the fact that Truth Soul Armor is a Christian based company and John is also a Christian play in the final investment decision?
6. What should John do?

APPENDIX 1: TRUTH SOUL ARMOR BUSINESS PHILOSOPHY

A. The Opportunity

Market research shows that Truth Soul Armor is uniquely positioned to grow and succeed in the youth apparel market. Through lifestyle marketing, aided by the growing attention given to the Christian consumer, Truth is in a rare position to capture a share of the youth apparel market.

1. The youth market, ages 15-24 years, at 40+ million strong, aggregates more than \$350 billion in yearly earned income. The total spending in the youth market will exceed \$550 billion, where young people will spend over \$300 billion and the parents of 15-17-year-olds will spend another \$54 billion. Young consumers are driven by fashion, spending the most on apparel. They are less driven by bargains, have lower brand loyalty, and have greater willingness to try new stores than any other segment of society. The youth population is more concentrated in urban areas than the general population in the country. Peers and parents influence brand choices that are driven by attitudes and lifestyle rather than by race or geography.
2. Surf and skate retail is \$10 billion a year and growing. According to market analyst Broad-Trac Inc., 55 percent of sales is from T-shirts, jeans, and shorts alone. Industry leader Billabong accounts for \$2.7 billion in garment and accessory sales. Quicksilver is at \$1.6 billion, followed by Volcom at \$780 million, and Hurley — now part of Nike — at \$100 million.
3. The level of attention the Christian consumer has received in the last two years has accelerated. Now referred to as “*The Passion* factor,” this trend began with the release of Mel Gibson’s movie *The Passion* and continued through the successive box-office hits of *The Possession of Emily Rose* and *Narnia*. This rising trend has captured the media’s attention, making the cover of Time magazine, and has been widely discussed on *CNN*, *Good Morning America*, and *Fox News*. The attention this buying group has received has caused a flurry of redirected marketing and production.
4. As a cross-over company serving both the general retail and the Christian consumer, Truth is positioned to market to the 5,000+ Christian retailers nationwide in addition to conventional surf and skate stores.

The youth apparel market is bursting with opportunity. Youth — more than any other category of consumers — direct tremendous amounts of discretionary spending on apparel with less attention to brand loyalty and

the customary resistance to new brands and retail stores. Now is the time for Truth — a rising, young company, strategically located in southern California, with cutting-edge fashion, and able to cross over to the Christian consumer — to grow.

B. Leveraging the Opportunity

Youth culture is influenced by the lifestyles of extreme sports champions, music and the associated bands, and media. What these cultural gatekeepers wear and what they endorse carries weight.

1. Truth leverages this opportunity by strategically injecting its brand into youth culture. For a small company, Truth has a big footprint in youth culture by using its network of Christian action sports champions who carry the Truth logo. Moto X, Bryan Dowdy, Kyle Loza, Andrew Short, and seven-time King of the Baja Johnny Campbell carry the logo. Likewise, Truth has engaged the skate community by sponsoring skaters and events, including their recent title sponsorship of the Badlands Skate Park rated in the top two percent of parks in the nation. Former professional surfer Simon Severson is the in-house team leader for Truth, taking the Truth brand to Christian surfers and west coast surf contests.
2. Like action sports, the music industry has a large influence on Truth's target market. P.O.D. Olivia the Band, Kutless, Day of Fire, Tactic, Jeremy Camp, Casting Crowns, and others wear the Truth logo. In addition, Truth regularly has booths at concerts and festivals (such as Spirit West Coast) around the country.
3. Truth's influence is also carried into media through sponsorship of the Truth Uncensored DVD that is the most widely distributed action sports DVD of all time. Truth has also been seen on MTV and *Good Morning America*.
4. Youth express their identity through apparel and are defined by the image of that apparel among their peers.

Truth represents the faith of those who wear it on their sleeve as a brand, while successfully positioning itself as a widely appreciated positive fashion message through core retail stores following current trends in action sports, music, and media.

C. Business Description

1. Truth is positioned as a cutting-edge designer of youth fashion wholesaling through both general and Christian retailers. While maintaining creative control, Truth successfully outsources garment design and production,

thereby taking advantage of the large pool of trend ideas in the industry without the expense of maintaining an internal design and production department. The Truth brand's unique designs are applied to these garment blanks through printing and specialty stitching.

2. Watching the trends guiding the culture, while drawing inspiration from other brands and events, keeps Truth on top of the fashion and garments in demand.
3. The product line focuses on core garments, seasonal offerings, and ongoing test marketing. Core garments include T-shirts, walking shorts, board shorts, jeans, hats, coats, and sweatshirts for boys and girls. Truth designs and sells to two seasons through more than 100 retail outlets. An internal company culture of quality and commitment to fashion-forward design results in ongoing test marketing and special-edition garments featuring endorsements by various bands, athletes, and media.

D. Mission Statement

1. We exist to expose the truth of the Gospel through our clothing line in graphics, design, team, quality, and in business. Where our enemies infect culture with lies and smut, we influence culture with the truth of love and redemption. We will fight evil. We will love our neighbor. We will bind up the broken-hearted and spread our message of hope. We will be agents of change, empowering this generation to stand up for what is right. We will let the Truth set them free.
2. Truth is called to equip and empower a people chosen to free those who have been overcome by the lies of the enemy. Truth Soul Armor is an apparel brand that relevantly promotes the hope of the Gospel and the lifestyle that results from it through fashion-forward creative apparel and positive marketing, promoted by athletes and musicians of strong Christian character.
3. The message to youth is "The Truth will set you free!"
4. We have been placed among the cultural influencers of the powerful action sports industry. This industry has given birth to brands that have created a culture revolving around the party lifestyle. Other brands embrace a very positive message in environmental awareness but also promote the Rastafarian philosophy and use of marijuana. These are the leaders of the youth culture. As youth search for an identity and a belonging, they look to the representatives of these brands for guidance and counsel. They conform to the misleading lifestyles, and they embrace these messages of false hope. Over the past 10 years, this influence has crossed over into the mainstream and is influenc-

ing youth worldwide. Truth will fight for the hearts, minds, and souls of this generation.

The youth market's acceptance of new, off main-brand merchandise has resulted in Truth selling two to one in the core market of board and skate shops than to Christian retailers. The core market has accepted Truth, and Truth is accomplishing its mission.

E. Vision and Goals

Vision: That Truth will own a brand that is recognized from across the street by the majority of youth culture. With that brand recognition will come recognition that the Truth can set them free. The fulfillment of Truth's mission and vision necessitates a profitable growing business enterprise supported by experts who will guide Truth into increasingly higher levels of market penetration, fashion-forward design, and strong business practices.

Goals:

1. Through the brand, God would move young consumers to seek the Truth that can set them free
2. Establish Truth's presence in every core youth culture store in the U.S.
3. Maintain competitive sell-through rates with major brands
4. Produce the highest quality apparel
5. Stay at the cutting edge of fashion
6. Provide a positive identity for youth
7. Distribute throughout the Christian market
8. Gain greater visibility by advertising through action sports, music, and media

APPENDIX 2: TRUTH SOUL ARMOR OPERATIONS AND MANAGEMENT PLAN

A. Operations Plan

Credentials of Key Players

- Jeff Ray, principal owner. Founder of the J. L. Ray Company 20 years ago, Ray is a locally respected businessman and entrepreneur, having built the company from a one-man operation to \$4 million in annual sales. The J. L. Ray Company has been placed under the care of seasoned managers who continue to grow the company. Adding to Truth's financial stability is Mr. Ray's own financial stability, which is enhanced by a successful career as a real estate investor. Having built one successful business, Mr. Ray is highly qualified to lead the start-up of Truth Soul Armor and to recruit and place a top leadership team.
- Charlie Cobian, national sales manager. Previously the distribution manager for Cobain Sandals, responsible for overseeing domestic and international sales departments, planning and managing production, and developing sales volume forecasts into production. He recruited and trained European and Asia/Oceania sales managers, supporting them with LDP distribution programs and streamlining international deliveries.
- Nino Camillo, outsourced marketing director. National sales manager for Poor Specimen Productions, 20x0-20x3. He established Steelehouse Distribution, growing that business from 50 doors to 500 in one year, including brands such as Quicksilver, BRC's Ron Jon's, and Zumiez. Co-founder/marketing and sales director, Risen magazine, 20x2-20x4. Established advertising partnerships with brands such as Billabong, Element, Ocean Pacific, Fox, and Cobian. Marketing guy/team manager, Cobain Sandals, 20x4-20x5. Created "Walk with Us" campaign.

Facility Requirements for Growth

- Currently, Truth's office and warehouse occupy more than 4,000 square feet; another 2,500 square feet are sublet. This facility is adequate for the next two years of projected growth.
- The building has been offered for sale at very reasonable terms.

B. Management Plan

1. Ray is acting CEO, overseeing daily operations, coordinating tasks between departments, and researching potential customers and allies, while keeping Truth on track toward its vision.
2. Ray's philosophy is to bring key players on board when the right people present themselves at the right times. Therefore, Truth will likely be in the hands of professional managers and leaders before the traditional benchmark for their entrance at \$20 million in sales.
 - First priority is a national sales manager (position filled)
 - Second priority is an office manager with a strong accounting background
 - Third priority is a seasoned CEO
 - Fourth priority is both a CFO and COO
3. Current Staff and Organizational Chart
 - Truth currently has eight staff and six sales reps in the field

- Organizational chart has four departments reporting to Ray — the finance, operations, marketing, and sales
4. Additional Staff Fitting in the Chart
 - Office manager with a strong accounting background
 - IT technical support
 - Increase sales reps to 20 in the field
 - In-house graphic designer producing print advertising and apparel design graphics
 5. Board of Directors
 - A board of directors will be recruited from an advisory board of friendly investors
 - Other board members will be sought with expertise in the areas of financial management, legal counsel, and same-market experience

C. Legal Considerations

1. Truth Industries is a subsidiary of Armada Del Salvacion, a California “C” Corporation.
2. Currently there are 10 million outstanding shares of stock representing 100 percent ownership by Ray.
3. Ray is currently president and CEO.
4. A board of directors will be recruited by January 20x7.

APPENDIX 3: TRUTH SOUL ARMOR SALES PLAN

A. Major Factors That Will Affect Sales

1. Targeted Advertising
 - Grassroots advertising is more effective than print advertising or catalog distribution and is less expensive. Truth is often seen in San Clemente and the same level of saturation will be sought in other key cities in California, Texas, Florida, and the Carolinas.
 - Truth will seek “real estate” in stores and pay to create a Truth section rather than garments mixed into other brands hanging on a rack. This measure will add consistency to monthly sales and provide a more consistent income stream.
 - Matt Beacham, pro surfer, joins the Truth team.
2. Deals in the Works
 - Active, Killer Dana, Island Water Sports, and Costal Edge are actively testing Truth apparel in their retail stores.
 - Marshall’s is expanding the Truth line to include boys and girls.
 - Pending expansion of C28 from 7 to all 26 stores
 - Pending addition of 25 Esco stores

- Pending addition of 16 Bob stores in New England
3. Truth manufactures its apparel in the U.S. because the minimum number of garments in an order can be smaller so as to be consistent with current sales volume. Greater economy is achieved with greater volume, where the cost of goods for a U.S.-made shirt may be \$6.50. Overseas that same shirt might cost \$4.00, provided that the larger manufacturer’s minimums are met.
 4. Strong Sales Presentations
 - The new catalog will use strong Christian images for deeper brand identification.
 - Five sales reps will be recruited who also rep other major brands, which will give Truth a new level of credibility by association.
 - Sales reps will rank Truth’s styles. Those who interact closest with the customer will have significant input into which lines Truth carries.
 - Ninety percent of the items in the catalog will be in ready inventory for on-the-spot sales and quick delivery.
 5. Charlie Cobain Joins Truth as National Sales Manager
 - As director of sales for Cobain Corp., Charlie Cobain took the company from the same point Truth is currently at — \$500,000 in yearly sales — to over \$7 million in four years.
 - Cobain brings vast experience establishing a domestic and international sales force, dovetailing manufacturing deadlines and availability for sales.

B. Selling Cycle

1. The timeline from design to full payment of sold goods is immense. The design/development phase begins one year to 18 months before production commences. Preproduction begins with a 30 percent deposit and continues through finished garments taking 90-120 days. Finally, the time to sell out the line and receive payment is six to seven months.
2. Truth currently plans for two selling cycles per year — fall and spring — with a potential seasonal buy.

C. Sales Growth

Sales Goals for 20x6

	Actual	Actual	Actual	Projected	20x6
Sales by Quarter	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Totals
Total	\$220,987	\$220,299	\$194,493*	\$365,924	\$1,001,703

** Sales do not reflect \$52,000 prebooked for October nor that September marked the first month with a sales team in the field.*

D. Sales Action Plan

1. Establish goals for sales reps and hire multi-brand reps.
2. Sharpen production goals to coincide with catalog availability, where 90 percent of catalog items are currently stocked in the warehouse, available for delivery.
3. Evaluate current margins as they relate to sales and price markdowns.
4. Introduce style ranking by sales reps to help judge sell-through effectiveness.
5. Catalog imaging to be more “Christian” for deeper brand identification by customers.
6. Create Truth “real estate” in major clients’ stores, then stock that dedicated section faithfully for consistent cash flow and maximum yield.
7. Once production delivery dates dovetail with catalog release and available inventory, then with the foundational ability to deliver on orders in place, Truth will pursue major vendors.

APPENDIX 4: TRUTH SOUL ARMOR MARKETING PLAN

A. Market Strategy

1. The youth market, which is Truth’s market, ages 15-24 years, at 40+ million strong, aggregates more than \$350 billion in yearly earned income. The total spending in the youth market will exceed \$550 billion, where young men will spend over \$300 billion, and the parents of 15-17-year-olds will spend another \$54 billion. Young consumers are driven by fashion, spending the most on apparel. These shoppers are less driven by bargains, have lower brand loyalty, and have greater willingness to try new stores than any other segment of society. The youth population is more concentrated in urban areas than the general population, with the New York metro area having the largest youth population in the country. Peers and parents influence brand choices that are driven by attitudes and lifestyle rather than by race or geography. Most live at home and are at least partially supported by their parents, allowing them more discretionary spending.
2. The youth market is attracted to Truth’s fashion-forward look, its positive lifestyle message to youth and their parents, and its presence on racks next to the major brands.
3. Truth’s primary target market are the core retail stores that sell youth sports equipment, accessories, and garments and that guide youth culture — stores like Jack’s

Surf & Sport, Hansens, Surf Rider, and Active. For a brand to be accepted in this insider industry, it must be acknowledged by these trendsetters. This is where Truth’s ideal customer shops and where the industry takes its cues. Truth is currently selling in Hansens and where a consistent presence raises the value of the product in the eyes of the large department store retailers.

4. Truth is competing successfully in second-tier stores such as Infinity, Becker, Killer Dana, and Ripcurl.
5. The year 20x6 will wind up showing 34 percent of retail sales to core stores. Projections for 20x7 put the percentage of gross sales represented by core stores at 54 percent. These stores, in addition to those core and second-tier stores, provide the best margins and consumer exposure for Truth as well as a sure path into the large retailers.
6. The relationship with Marshall’s has been extraordinary. Truth’s bargain shopper shops prefer Truth over the top major brands according to two local store managers. Marshall’s provides an incredible safety net to Truth by buying all leftover garments at plus or minus 10 percent of Truth’s manufacturing costs, insuring that Truth recovers its cash from every order. In addition, because of Truth’s competitive sell-through rates, Marshall’s has become a customer offering a 30 percent margin on the current season’s garments.

B. Market Strategy

1. Young consumers’ lifestyles are influenced by apparel marketing and expressed through the apparel they and their peers wear. The defining impulses moving people to buy Truth product are as follow: (a) they like the cutting-edge design, (b) they like the positive message, and (c) in the case of a Christian consumer, they identify with the Truth message. The youth market is energized by being extreme. Identifying with the Truth brand by associating it with being an extreme Christian is desirable and what Truth aims for.
2. Tying the brand together from catalog to website where Truth owns a special look that is widely recognized.
3. Create increased brand awareness on a grassroots level. Translate the grassroots brand recognition in San Clemente into grassroots movements in other surf and skate industry central cities in California, Texas, Florida, and on the east coast.
4. Coordination of print advertising, website promotions, events, and in-store promotions.
5. Truth began developing west coast distribution channels in southern California. It expanded to Oregon and

then across the southern states into Texas and Florida.

6. While working to add more stores at the current rate of 3.5 new stores per month, Truth is expanding the existing lines of apparel to include higher margin items such as denim jeans and jackets.

C. Sales Strategy

1. National sales director Charlie Cobian will recruit the sales reps, expand the number of stores nationwide, and add premiere national marquee accounts.
2. The Truth sales team is being formed into a highly organized sales force being assigned accounts geographically; acquiring new stores on an A, B, and C list of priorities; and being held accountable to monthly goals.
3. Cobain is seeking, as door openers for Truth, sales reps who already operate at a high level, “rep”-ing a complementary brand. Bob Siemon’s sales team is an example of this. They strategically introduce Truth garments in a store that will only enhance jewelry sales and vice versa.
4. Truth will seek to get “real estate” or an exclusive Truth section in each of its stores that the sales force will keep stocked with a regular flow of merchandise, thus giving a more dependable income stream for these existing customers.

APPENDIX 5; TRUTH SOULD ARMOR FINANCIAL PLAN

A. Financial Stability

1. The current average rate of sales is \$70,555 per month.
2. The majority of sales come from longtime customers who view Truth as a staple for their stores.
3. Truth sells. Truth products result in better-than-average sell-through rates. Truth has a core following who have known the brand since it started 12 years ago.
4. Truth Industries is debt-free. All current operating capital has been funded by Jeff Ray, the principal owner. Ray has invested more than \$500,000 into Truth thus far.
5. Ray has refused a personal salary for 20x5 and 20x6.
6. Giving further financial stability to Truth is Ray’s own reputation as a respected entrepreneur with considerable real estate holdings.
7. Truth offices and warehouse at 1327 Calle Avanzado is leased for three years at a very desirable below-market rate and is available for Truth to purchase.

B. Capital Requirements

1. As a million-dollar company, Truth has aggressively positioned itself for dynamic growth in the next three years. Truth has developed an effective and efficient business system that outsources design, manufacturing, and marketing. Truth has hired an industry-leading sales manager, Charlie Cobian, to bring his years of experience and contacts under the Truth banner.
2. The aggressive budget determines the cash flow positive point. The average sales margin is approximately 44 percent of wholesale for 20x6.
3. The current budget reflects the ramping up of key staff positions to accommodate the anticipated growth over the next two years.
4. Truth is seeking \$750,000 in investment capital from the sale of stock. Valuation after receipt of the \$750,000 in new investment capital will bring the valuation to approximately \$2.15 million.
5. Future Valuation and ROI
 - Valuations will be set by the board of directors.
 - Investors in a privately held company are not able to sell their stock until the company is sold, the company creates an IPO and publicly sells its stock, or one investor buys out another’s interest in the company.
6. Exit Strategy
 - Truth is committed to building equity for its investors; therefore, at or before the \$24 million valuation point, potential buyers for all or part of the company will be courted.
 - At the point when potential buyers are courted, the fitness of Truth will be weighed in light of going for an IPO.
 - Truth, at some point, may pay out profits proportionally to investors.